

DENTAL HEALTH SERVICES
(a California Corporation)
A WHOLLY OWNED SUBSIDIARY OF DENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Dental Health Services ("the Company") was organized on May 2, 1974 under the laws of the State of California and has qualified under the Knox-Keene Health Care Service Plan Act of 1975 as a dental health care service plan. As of May 1, 1988 the Company was acquired and is wholly owned by Dental Health Services of America.

The Company, which operates in the state of California, provides dental care on a contractual basis for a basic monthly subscription fee which is received without regard to frequency, extent, or kind of service provided. This basic subscription fee is supplemented upon occasion by an additional co-payment for certain of the services offered. These services are provided by dental professionals with which the Plan has entered into written services agreements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of these financial statements, which policies are in accordance with generally accepted accounting principles.

Property and equipment

Property and equipment are stated at cost. Depreciation and amortization of property and equipment are provided using the straight-line method for financial reporting purposes at rates based on the following estimated useful lives:

Furniture and fixtures	5 years
Dental equipment	5 years
Automotive equipment	3 years
Leasehold improvements	over the life of lease

For federal income tax purposes, depreciation and amortization are computed using accelerated cost recovery methods.

Maintenance and repairs are charged against earnings when incurred. Major additions are capitalized.

Income taxes

Deferred federal income taxes are provided on the difference in earnings determined for tax and financial reporting purposes.

NOTE 3 - RELATED PARTY TRANSACTIONS

During the month ended **September 30, 2003**, the Company received various services from Godfrey Pernell, D.D.S., Inc., a wholly owned company of Dental Health Services' Executive Director. Charges for these services were as follows:

Orthodontic services	\$14,000
Subscription services	<u>\$15,241</u>
Total	\$29,241

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Automotive	28,250
Furniture & Fixtures	49,493
Office equipment	1,080,510
Leasehold improvements	543,805
Computer equipment and software	<u>202,724</u>
	1,904,781
Less, accumulated depreciation	<u>1,710,276</u>
Property and equipment, net	<u>\$ 194,505</u>

NOTE 5 - RESERVE FOR UNPAID CLAIMS

A reserve for unpaid claims has been included under the provisions of the Health Care Service Plan Act of the State of California.

NOTE 6 - EMPLOYEES PENSION AND PROFIT SHARING PLANS

During the month ended **September 30, 2003**, the contribution expense for the Employee Stock Pension Plan was \$15,192.

Plan Name Dental Health Services
File No.: 933-0059

**KNOX KEENE
SUPPLEMENTAL INFORMATION
PURSUANT TO SECTIONS 1300.84.06 AND 1300.82.2
FOR THE MONTH ENDED September 30, 2003**

Section 1300.84.06:

(b) (1) Explanation of the method of calculating the provision for incurred and unreported claims:
Based on historical review of authorized treatment plans, it was calculated in accordance with section 1300.77.2 of the State of California Department of Health Care Service Plans.

(2) Accounts and notes receivable from officers, directors, owners or affiliates, as detailed below:

<u>NAME OF DEBTOR</u>	<u>NATURE OF RELATIONSHIP</u>	<u>NATURE OF RECEIVABLE</u>	<u>AMOUNT</u>	<u>TERMS</u>
Dental Health Services of America	Affiliate	Loan	\$ 658,894	
Godfrey Pernell, DDS	Stockholder	Loan	\$ <u>0</u>	
			<u>\$ 658,894</u>	

(3) Donated materials or services received by the plan for the period of the financial statement, as detailed below:

<u>DONOR'S NAME</u>	<u>AFFILIATION WITH PLAN</u>	<u>VALUATION METHOD</u>	<u>AMOUNT</u>
	None		

(4) Forgiven debt or obligations, as detailed below:

<u>CREDITOR'S NAME</u>	<u>AFFILIATION WITH PLAN</u>	<u>SUMMARY OF HOW OBLIGATION AROSE</u>	<u>AMOUNT</u>
	None		

(5) Calculation of tangible net equity in accordance with Section 1300.76 of the Regulations:

Net Equity at 09/30/03	1,524,022	Tangible Net Equity Required Calculation	
Add: Subordinated Debt	-	A. Minimum amount	\$ 50,000
Less: Receivables from officers, Directors and affiliates	658,894	B. Premium Revenue	%
		@ 2%	7,500,000 \$ 150,000
		@ 1%	6,262,252 62,623
Intangibles	-	Total Premiums	13,762,252 \$ 212,623
		(Estimated for fiscal year)	
Tangible Net Equity	865,128	C. Healthcare, excluding cap	%
Tangible Net Equity Required	446,787	@ 8%	5,584,835 \$ 446,787
		@ 4%	- -
TNE Excess (Deficiency)	<u>418,341</u>	Healthcare Exp	5,584,835 \$ 446,787
		(Estimated for fiscal year)	

(6) Percentage of administrative costs to revenue obtained from subscriber and enrollees:

Revenue from Subscribers and Enrollees	\$1,143,864
Administrative Costs	\$269,975
Percentage	23.6%

(7) The amount of health care expenses incurred during the six-month period immediately preceding the date of the report which were or will be paid to non-contracting providers or directly reimbursed to subscribers and enrollees: \$1,596,814

(8) Total costs of health care services for the immediate preceding six months: \$5,325,580

(9) If the amount of health care expenses incurred during the six-month period immediately preceding the date of the report which were or will be paid to non-contracting providers or directly reimbursed to subscribers and enrollees exceeds 10% of the total costs for health care services for the immediately preceding six months, the following information, determined as of the date of the report, shall be provided:

- (i) Amount of all claims for non-contracting provider services received for reimbursement but not yet processed: \$132,000
- (ii) Amount of all claims for non-contracting provider services denied for reimbursement during the previous 45 days: \$1,716
- (iii) Amount of all claims for non-contracting provider services approved for reimbursement but not yet paid: \$59,000
- (iv) An estimate of the amount of claims for non-contracting provider services incurred, but not reported: \$324,000
- (v) A calculation of compliance with Section 1377(a) as determined in accordance with such section, as follows:

1.	Cash and cash equivalents	\$1,009,053
2.	Non-contracting Provider Claims (Aggregate total of items (i) through (iv) above).	516,716
3.	120% reserve required (120 X Total non-contracting provider claims on Line 2)	<u>620,059</u>
	Excess (deficient) reserves (Line 1 - 3)	<u>\$ 388,994</u>

Note: Two separate "Assignment to Commissioner of Corporations" forms have been filed with the DMHC. Both assignment forms are dated March 5, 1998; one in the amount of \$50,000, the other in the amount of \$400,000, totaling a restricted assets amount of \$450,000. The DMHC method to calculate restricted deposit requirements is minimum deposit, \$50,000, plus the amount calculated above, section 9 (v) -3, \$388,994, totaling \$438,994.